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THE WHITE HOUSE

WASHINGTON

October 29, 1984

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MEMORANDUM FOR THE HONORABLE MALCOLM BALDRIGE  
 The Secretary of Commerce

SUBJECT: Proposed Promotional Activities Concerning  
 U.S. Exports of Energy Equipment to the  
 USSR (S)

I appreciate your responsiveness in submitting for our review a proof copy of the Department of Commerce brochure entitled, "Exporting to the USSR." This represents a fine effort and will no doubt serve a useful purpose in support of the exporting community. Its release at this time, however, would complicate and possibly prejudice ongoing efforts to review and refine U.S. policies as well as our efforts within COCOM concerning energy technology exports to the Soviet bloc. (S)

As you know, the NSC has tasked CIA to study various dimensions of this problem, the results of which we hope will constructively contribute to our knowledge base in the complex policy area of East-West economic security. Therefore, I ask that you postpone publication of this brochure, pending the outcome of the CIA/NSC effort. In addition, in the interests of building a policy consensus on this critically important subject, I am requesting a review of your brochure by State, Defense and CIA. As something "on the table," it should help to focus our efforts on this issue. For the same reasons stated above, a decision at this point in time to include energy technology and know-how in the October 1985 U.S. technical exhibit in Moscow is premature. I request that Commerce either remove from consideration the exhibit of oil and gas equipment or postpone a decision on this matter until a clearer sense of U.S. policy direction in this area is forthcoming. (S)

I know that you share with me the belief that we can and we must strive to reach a definitive, refined consensus on this issue of vital national security importance to our country. I ask that you bear with us and defer East-West export promotion activities for energy technology and

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\* know-how until we can develop a solid and sensible  
rationale for moving ahead. (S)

  
Robert C. McFarlane

cc: The Secretary of State  
The Secretary of Defense  
The Director of Central Intelligence

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**SECRET**THE WHITE HOUSE  
WASHINGTON

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October 12, 1984

**SECRET**MEMORANDUM FOR THE HONORABLE GEORGE P. SHULTZ  
The Secretary of StateTHE HONORABLE MALCOLM BALDRIGE  
The Secretary of CommerceTHE HONORABLE WILLIAM E. BROCK  
United States Trade RepresentativeSUBJECT: NSC Tasker to CIA on Soviet Energy  
Development and Its Strategic Implications  
for East-West Relations (S)

I appreciated receiving letters from you expressing the strong interest of your agencies in our request that the CIA undertake an assessment of Soviet energy strategy and its strategic implications. I think we all agree that such an updated assessment is of value at this time, particularly in view of the upcoming meetings of the East-West economic working group tentatively scheduled for December in Moscow.  
(S)

Bill Casey has assured me that the CIA assessment is already under way based on our comprehensive terms of reference. In light of this, I believe the best approach at this juncture is to invite the comments of your agencies on the TOR which will be forwarded to the CIA as deemed appropriate. I understand Commerce has already submitted to the CIA a separate list of requirements. (S)

We need though to think not only about an assessment, but also about a process to assimilate the information we receive and to transform it into clear policy recommendations. Here I think our procedure on China technology transfer policy serves as an appropriate precedent. A steering group should be created under NSC auspices. The task of this group should be to evaluate the spectrum of technology before us, to examine the strategic rationale for transfer and for denial, and to table recommendations in green lines and red lines, as well as for an amber zone for the purpose of establishing negotiating leverage. A knowledgeable pre-existing group under the direction of the steering group

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should be assigned to prepare issues for policy resolution. The State-chaired SIG on Technology Transfer would probably be most appropriate as it has heretofore been responsible for COCOM deliberations on oil and gas equipment and technology transfers.

Although it would be desirable to reach a consensus by the time of the December meetings in Moscow, priority must be given to conducting a careful evaluation of this issue and the important role of energy trade in the context of our broader agenda on East-West relations for the second term. As you know, this Administration has expended enormous efforts to forge a security-minded consensus on East-West economic relations as outlined in NSDD-66, and it is important that we take a measured approach to the beneficial expansion of U.S.-Soviet commercial relations so that our hard-fought gains in this area are preserved. (S)

  
Robert C. McFarlane

cc: The Secretary of Defense  
The Director of Central Intelligence

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Central Intelligence Agency



Washington, D.C. 20505

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19 Sept 84

MEMORANDUM FOR: The Honorable Robert C. McFarlane  
Assistant to the President for  
National Security Affairs

SUBJECT: Requested Study on Soviet Energy Development and  
Its Strategic Implications for East-West Relations (S)

The Agency stands ready to contribute analysis of Soviet energy developments and their implications for East-West relations as background for discussions on U.S. policy formulation in this area. Based on the guidelines established in your tasking memorandum dated 10 September 1984 we anticipate no difficulty in meeting your requirements. Per your suggestion, I intend to have members of my staff contact Bill Martin, Roger Robinson and David Wigg to discuss further the nature of the study and establish a timetable for its completion. (S)

*Signatures*

William J. Casey  
Director of Central Intelligence

cc: The Secretary of State /2  
The Secretary of Commerce /3

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MEMORANDUM FOR: Director of Central Intelligence

VIA: Deputy Director of Central Intelligence  
Executive DirectorFROM: Robert M. Gates  
Deputy Director for IntelligenceSUBJECT: NSC Requested Study on Soviet Energy Development  
and Its Strategic Implication for East-West Relations 

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1. Action: Attached memorandum to Robert C. McFarlane is for your signature. 

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2. Background: The NSC has requested that we prepare an up-to-date assessment of Soviet energy policy goals and the role of Western equipment and technology in achieving these objectives. The request was prompted by Soviet intentions to raise the issue of U.S. export controls on energy equipment during the U.S.-Soviet economic working group meetings to be held under the Long-Term Agreement to Facilitate Economic, Industrial and Technical Cooperation tentatively scheduled for November 1984 in Moscow. Specifically, we have been requested to examine four areas of concern:

- Soviet energy prospects.
- Soviet strategy to maximize energy exports, advance Soviet geopolitical objectives and as a hard currency earner.
- Western markets for Soviet energy sales.
- European/Japanese perceptions of Soviet energy trade.

Our report will be used to consider whether any adjustments to present U.S. policies may be required. Because of their importance, we have been closely following these issues and anticipate no difficulty in preparing the requested study.

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3. Per Mr. McFarlane's suggestion, I plan to have members of my staff meet directly with Bill Martin, Roger Robinson and David Wigg to discuss further the nature of the study and establish a timetable for its completion. SOVA, OGI, OEA, and EURA will be involved in the preparation of this assessment.

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Robert M. Gates

Attachment:  
As stated

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**THE SECRETARY OF COMMERCE**  
Washington, D.C. 20230

APR 17 1986

Honorable Robert C. McFarlane  
Assistant to the President for  
National Security Affairs  
The White House  
Washington, D.C. 20500

Executive Registry

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Dear Bud,

(S) I have just received a copy of your memorandum for William Casey requesting an assessment of Soviet energy policy goals and the role of Western equipment and technology.

(S) The Soviets will be interested in discussing at a meeting of the Working Group of Experts under the Long Term Agreement to Facilitate Economic, Industrial, and Technical Cooperation their plans for energy development and possibilities for purchasing American energy equipment and technology. Deputy Foreign Trade Minister Sushkov made this clear during our meeting in May. I said that at the Experts Meeting both sides should be prepared to discuss topics of interest to the other, but told him that naturally I could make no promises as to the results of those discussions.

(S) Lionel Olmer will lead the U.S. delegation to the Experts Meeting, which will probably take place in December. Believing that in preparing for these discussions with the Soviets we need an accurate understanding of their objectives, needs and capabilities, he just sent a letter to Robert Gates at CIA with a request for information, including some themes along the lines of your memorandum.

(S) Given the common interest we share with you on this subject, as well as the Department's responsibility for administering the export control program and chairing the Joint U.S.-U.S.S.R. Commercial Commission, it is important that Commerce participate fully in drafting the terms of reference for the CIA study and that we be fully involved as the study proceeds. The analyses Commerce and NSC have requested of CIA on Soviet energy issues should be melded to obtain the best up-to-date assessment of Soviet energy capabilities and goals prior to our meetings with Soviet trade officials. Deputy Assistant Secretary Frank Vargo will be our representative.

Sincerely,

Secretary of Commerce

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REG

cc: Secretary of State  
Director of CIA

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14 September

Date

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Please prepare a response for the  
DCI's signature.

D/ Executive Secretary  
10 September 1984

Date

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THE WHITE HOUSE

WASHINGTON

September 10, 1984

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MEMORANDUM FOR THE HONORABLE WILLIAM J. CASEY  
 The Director of Central Intelligence

SUBJECT: Soviet Energy Development and Its Strategic Implications for East-West Relations (S)

Background

The Soviet Ministry of Foreign Affairs has voiced its intention to discuss U.S. export controls on energy equipment during the U.S.-Soviet economic working group meetings to be held under the Long-Term Agreement to Facilitate Economic, Industrial and Technical cooperation tentatively scheduled for November 1984 in Moscow. Because of the importance of this issue in the context of our overall U.S. foreign policy objectives, I believe it would be imprudent for the Administration to undertake any such discussions without an up-to-date assessment of Soviet energy policy goals and the role of Western equipment and technology in achieving these goals. Past work by the Agency on Soviet energy developments and their implications for East-West relations has contributed significantly toward the advancement of U.S. policy formulation. For this reason, I am requesting that you revisit this issue so we may be prepared to consider whether or not any adjustments to our present policies in this area may be required. (S)

Nature of the Problem

Over the past few years, we have seen several disturbing instances where the Soviets have sought to gain important political and economic leverage over the West through the use of energy exports. The Soviets are: (U)

- o Using energy sales to the West as the centerpiece of their hard currency earnings structure. Today oil and gas sales account for about 66% of total annual Soviet hard currency earnings. (U)
- o Seeking an increasingly dominant share of European gas markets through predatory pricing practices. The Soviets probably hope to capture as much as 50-60% of Europe's total gas demand over the next two decades, resulting in additional crucial hard currency earnings of as much as \$10 billion or more. (Rough estimates based on a fully subscribed first strand of pipeline, use of other existing pipeline capacity and a fully subscribed new second strand of the Siberian pipeline). (U)

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- o Seeking to expand their development of oil and gas resources off of Sakhalin Island jointly with the Japanese (SODECO) possibly at the expense of future U.S. LNG sales to Japan. We also have reports that they will also be selling up to 5 million tons of metallurgical coal to Japan with initial shipments beginning this year. (U)
- o Legally and illegally acquiring sophisticated Western oil and gas equipment, some of which is militarily useful, by leveraging future Soviet orders for energy-related equipment. (C)
- o Using the lure of energy equipment sales to also obtain preferential terms on credits. Much of Western sales of equipment for the Siberian pipeline project was financed with subsidized loans. (U)
- o Using pricing policy on gas sales to the West and the threat of cancellation of contracts to extort greater cooperation on the part of at least one West European government to cooperate in resisting U.S. and/or COCOM controls on strategic technologies. For example, a recent report reveals that the Soviets have told the Austrians that if they continue to cooperate with the West in restricting sensitive technology, they will double the price of their gas exports (Austria is about 80-90% dependent on Soviet gas supplies for its total gas requirements) and arrange for the cancellation of two construction contracts for projects in Eastern Europe totalling eight billion schillings. (C)

The Soviets will continue to pursue expanded energy exports to the West as a central component of their long term economic and geopolitical gameplan. In most instances, the Soviets will have the economic/commercial advantage and the ability to undercut alternatives through predatory pricing practices and the prospect of increased Western equipment sales and employment. The U.S., therefore, must continue to counter this Soviet policy with an on-going strategy building upon the President's major achievements in East-West economic relations over the past two and a half years. U.S. initiatives should continue to focus on: (U)

- o Encouraging viable alternatives to Soviet gas in West European markets even if a "security premium" is embodied in higher prices. (U)
- o Limiting oil and gas equipment and technology transfers which give the Soviet's additional advantage/leverage in the development of their energy resources and increased sales to Western Europe and Japan. (C)
- o Monitoring the projected level of hard currency earnings derived from energy sales to the West and its impact on the Soviet ability to sustain its present global commitments. (C)
- o Assessing the degree to which Western sales of oil and gas equipment to the Soviets are best balanced against common Western security interests. (C)

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- o Limiting Soviet efforts to expand energy sales in the Pacific Basin countries particularly Japan (Sakhalin project) at the potential expense of expanded U.S. LNG sales in the next decade. (C)
- o Monitoring Soviet energy assistance and export to Eastern Europe and other Soviet surrogates such as Nicaragua and the prospect of sustaining this level of assistance in the future. (C)
- o Analyzing the extent to which the Soviets would seek resources outside its borders (i.e. intervene in Iran), if the ability to exploit domestic reserves were, for any reason, sharply diminished. (S)

#### Suggested Terms of Reference

To better position the U.S. to curtail the Soviet strategy of using energy sales as a geo-political weapon, major hard currency earner and lever for the acquisition of sensitive and sophisticated Western equipment and technology, a major effort is required to update past assessments on: (C)

- o Soviet Energy Prospects: This aspect of the study should concentrate on the role of Western equipment and technology in the Soviet effort to develop its energy resource base. The impact of the denial of Western/U.S. equipment and technology should be assessed with particular reference to the approximately twenty-two items originally proposed to COCOM for multilateral controls. This section should also include a review of the equipment and technology most vital to Soviet development efforts, potential military applications of such items (i.e. single-crystal turbine blade technology), and the possibility of establishing controls on the export of such equipment in cooperation with our allies. In addition, the study should attempt to assess Soviet capabilities to develop indigenous manufacturing capacity in these critical areas and assess the impact on the efficiency of the use of Soviet equipment. (S)
- o Soviet Strategy to Maximize Energy Exports, Advance Soviet Geo-political Objectives and as a Hard Currency Earner: This aspect of the study should examine Moscow's strategy for export maximization. It should begin with an estimate of future Soviet hard currency requirements and the role of oil and gas exports in achieving these targets. The impact of Soviet barter arrangements with OPEC nations should be examined. Soviet tactics to enlarge energy exports to Europe and the Pacific Basin nations should also be reviewed. Finally, the role of Soviet energy exports in maintaining relations with client states should be assessed. (S)
- o Western Markets for Soviet Energy Sales: The energy outlook for Europe and the Pacific Basin should be examined, with an emphasis on likely efforts by the Soviets to further penetrate these markets. Potential alternatives to Soviet imports and

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- the costs of developing these resources should be reviewed. In addition, European and Pacific Basin country attitudes toward greater dependence on the Soviet Union should be covered in the study, as well as the potential for U.S. exports to compete with and replace Soviet energy exports. U.S. policy options to minimize Soviet sales to key U.S. allies should also be presented for consideration. (S) 4
- European/Japanese Perceptions of Soviet Energy Trade: The true economic benefit to Europe and Japan should be assessed, particularly the effects on Western employment (particularly the FRG), utilization of underused heavy industrial capacity and the indirect subsidization of uncompetitive Western companies for political purposes. In addition, Soviet disinformation themes should be catalogued which are designed to persuade Europe that, for example, the Soviets do not urgently need energy trade with the West and that the rationale behind U.S. efforts to restrict dual use energy equipment and place limits on Soviet sales to the West is really only a device to secure a preferred position for U.S. energy equipment suppliers. (S)

The time horizon for the studies should be for the period of 1985-2000. (C)

During the coming year we will be having extensive consultations with our Allies, bilaterally and within such fora as the IEA, OECD, COCOM and NATO, and therefore timely submission of this comprehensive update would be helpful. The Agency has been very responsive to our need in this area in the past and we know that you do have an accumulation of material which could be used for this assessment. However, given the overall importance of this exercise and the long term nature of the problem, we do not wish to set an unreasonable deadline. (C)

I suggest that Roger Robinson, Bill Martin and David Wigg of my staff meet with members of OGI, SOVA, EURA to determine reasonable deadlines and to further discuss the nature of this study. (C)

FOR THE PRESIDENT:



Robert C. McFarlane

cc: The Secretary of State  
The Secretary of Commerce

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